

VZCZCXRO2263

OO RUEHDBU RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSR

DE RUEHSI #0907/01 1321511

ZNY CCCCC ZZH

O 121511Z MAY 09

FM AMEMBASSY TBILISI

TO RUEHC/SECSTATE WASHDC IMMEDIATE 1552

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RUEHLO/AMEMBASSY LONDON PRIORITY 0820

RUEHML/AMEMBASSY MANILA PRIORITY 0023

RUEKJCS/OSD WASHINGTON DC PRIORITY

RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 000907

SIPDIS

LONDON PLEASE PASS TO EBRD K. PEEL, MANILA PLEASE PASS TO
EBRD C. CHIN

E.O. 12958: DECL: 05/11/2019

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [GG](#)

SUBJECT: GEORGIAN ECONOMY WORSENS, BUDGET CRISIS POSSIBLE

Classified By: Ambassador John F. Tefft for reasons 1.4 (b) and (d).

11. (C) SUMMARY: Buffeted by the global economic crisis and domestic political instability, the Georgian economy is in decline. The economy constricted 6.5 percent in the first quarter of 2009, and initial April numbers are not promising.

Remittances from abroad, especially Russia, have declined considerably. According to experts at the Ministry of Finance and National Bank, tax revenues in April decreased 60 percent in comparison with April 2008. The Ministry of Finance reports that overall tax revenues have decreased 20 percent on the year in comparison with 2008 figures. Prices for Georgian exports continue to decline as well. END SUMMARY.

12. (C) COMMENT: While official numbers for April are not yet available, early indications are that the speed of the decline that has taken place since the August 2008 war with Russia is increasing. At this point, it is unlikely that the government will be able to make up for the revenue lost in the first half of 2009 by year's end. We understand that the Ministry of Finance is preparing a budget amendment to further cut government expenditures, in hopes of stemming a budget crisis. END COMMENT.

GDP SHRINKING MORE THAN PROJECTED

13. (C) In light of worse than expected economic statistics from the first quarter, the government has adjusted its expected GDP growth downward from two to one percent. While the Georgian economy constricted 6.5 percent in the first quarter, it is difficult to extrapolate this number for quarters two and three, as historically the Georgian economy has been stronger during the second and third quarters. However, initial figures for April reported by the Ministry of Finance and National Bank indicate that the economic decline is continuing and perhaps even accelerating.

GOVERNMENT REVENUE, CENTRAL ACCOUNT BALANCE DROPPING

14. (C) According to U.S. Treasury advisors at the National Bank and Ministry of Finance, the Central Treasury Account at the National Bank has fallen to approximately 600 million GEL (361 million USD); a decrease of 200 million GEL (120.5 million USD) from March. This account is used as the funding mechanism for government expenditures. Lower than expected tax and customs revenue have contributed significantly to this decrease. In addition to the 20 percent decrease in tax revenues year to date, the Minister of Finance reported that VAT collections have also dropped precipitously due to a significant decrease in imports. Remittances from Russia and Ukraine have fallen 57 percent and 43 respectively in 2009, also affecting the budget.

GOVERNMENT ADJUSTS BUDGET PROJECTIONS . . .

15. (C) The government initially announced it did not plan to amend the 2009 budget in light of higher than anticipated economic constrictions. (Embassy note. In past years, budget amendments were introduced due to higher-than-forecast revenues. End note.) However, on May 7 the Ministry of Finance said it was working on a budget amendment that would redistribute funds. We expect the amendment to be issued in the next few days, perhaps as early as May 13, and to contain budget cuts for government agencies. Most, if not all, of the fat in the 2009 Georgian budget was removed last fall, as the fat in the 2009 Georgian budget was removed last fall, as the government expected growth to fall due to the August 2008 invasion and the global financial crisis. Unfortunately, this means if the government is to cut expenditures, it will likely be forced to decrease funding to key areas of the budget, possibly including social programs.

... AND LOOKS FOR CASH

16. (C) In addition to cutting the budget, the government is looking for any way possible to increase government revenues. There have been efforts to work with the World Bank (WB) and Asian Development Bank (ADB) to turn additional pledges of assistance into budget support. The government has also asked several of the international financial institutions (IFIs) to advance 2010 payments to help them make it through this tough stretch. The Ministry of Finance also recently issued a tender announcement to reintroduce a state lottery. Funds collected from the lottery would go directly into the state budget.

TBILISI 00000907 002 OF 002

COMMENT: IT COULD GET WORSE BEFORE IT GETS BETTER

17. (C) The government is looking for any possible source of funding for the state budget, and recognizes that on its current trajectory the Ministry of Finance could run out of funds before the end of 2009. Better-than-expected March economic figures emboldened the government, as GDP grew during the month. However, with the opposition protests beginning April 9 and continuing to date, stability in Georgia has once again become a question in the international media. This has negatively affected Georgia's economy at a time when the country desperately needs to attract international investors.

TEFFT